

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Cheboygan	County Cheboygan
Audit Date 6/30/05	Opinion Date 8/19/05	Date Accountant Report Submitted to State: 9/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980)
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended)
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129 91], or P.A. 55 of 1982, as amended [MCL 38 1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129 241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129 95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU)			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 902 S. Huron Street	City Cheboygan	State MI	ZIP 49721
Accountant Signature <i>Annette Eustice, CPA CGFM</i>			Date 9/23/05

CITY OF CHEBOYGAN
CHEBOYGAN, MICHIGAN



FINANCIAL STATEMENTS

JUNE 30, 2005

CITY OF CHEBOYGAN

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CITY OF CHEBOYGAN

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INDEPENDENT AUDITORS' REPORT

August 19, 2005

Honorable Mayor and Members
of the City Council
City of Cheboygan
Cheboygan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Cheboygan**, (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I through IX is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the **City of Cheboygan, Michigan** (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2005 by \$14,234,498 (*net assets*). Of this \$1,723,216 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City began the construction on the \$1,350,000 addition to the Department of Public Safety building. Among the improvements will be an interrogation room, showers, additional office and conference space, and in-door parking for police and fire vehicles. The expected completion date is October of 2005.
- The City set aside funds which cover the future cost of retiree Blue Cross and the payment of sick and vacation time accruals at the time of retirement. The Retiree BC/BS Investment Fund and Termination Liability Fund had balances of \$249,570 and \$92,922, respectively as of June 30, 2005.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$571,347 or 22% of the total General Fund expenditures and transfers.
- The City was put at the top of the Critical Bridge List and will be receiving approximately \$5,000,000 in funding from the State of Michigan to replace the Lincoln Avenue Bridge.
- The City amended its' Retiree Health Care Policy and expects to realize a savings of \$3,000,000 over the next 15 years.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works and culture and recreation. The business-type activities include the sewer and water activities.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Cheboygan Downtown Development Authority, a legally separate component unit for which the City is financially accountable.

The government-wide financial statements can be found on pages 3-5 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, 2001 Sidewalk Special Assessment Bond Fund, 2000 Streetscape Special Assessment Bond Fund and 2004 General Obligation Bond Construction Fund, each of which are considered to be major funds. Data from the other 17 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and the major Special Revenue Fund.

The basic *governmental fund* financial statements can be found on pages 6-12 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses Enterprise Funds to account for its sewer and water operations. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the various City functions. The City of Cheboygan uses its Internal Service Fund to account for its motor pool activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water departments which are considered major enterprise funds of the City.

The basic proprietary fund financial statements can be found on 13-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for governmental funds.

The basic fiduciary fund financial statement can be found on page 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-38 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* including the combining statements referred to earlier in connection with nonmajor governmental and fiduciary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 39-51 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$14,234,498 at the close of fiscal year 2005.

Approximately 76% of the City's net assets reflect its investment in net capital assets (e.g., land, buildings, water and sewer systems, vehicles and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets restricted for debt service, capital projects and perpetual care represent approximately 12% of total net assets. The remaining balance of *unrestricted net assets* (\$1,723,216) may be used to meet the government's ongoing obligation to citizens and creditors.

City of Cheboygan Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Cash and other assets	\$ 2,958,271	\$ 3,293,940	\$ 1,078,464	\$ 886,200	\$ 4,036,735	\$ 4,180,140
Capital assets, net of accumulated depreciation, where applicable	<u>7,931,324</u>	<u>7,798,547</u>	<u>9,777,634</u>	<u>10,131,988</u>	<u>17,708,958</u>	<u>17,930,535</u>
Total assets	<u>10,889,595</u>	<u>11,092,487</u>	<u>10,856,098</u>	<u>11,018,188</u>	<u>21,745,693</u>	<u>22,110,675</u>
Liabilities						
Current and other liabilities	565,045	660,539	110,302	41,093	675,347	701,632
Long-term debt, net of current portion	<u>6,835,848</u>	<u>7,147,883</u>	<u>-</u>	<u>-</u>	<u>6,835,848</u>	<u>7,147,883</u>
Total liabilities	<u>7,400,893</u>	<u>7,808,422</u>	<u>110,302</u>	<u>41,093</u>	<u>7,511,195</u>	<u>7,849,515</u>
Net assets						
Invested in capital assets, net of related debt	996,356	412,170	9,777,634	10,131,988	10,773,990	10,544,158
Restricted	1,737,292	1,811,017	-	-	1,737,292	1,811,017
Unrestricted	<u>755,054</u>	<u>1,060,878</u>	<u>968,162</u>	<u>845,107</u>	<u>1,723,216</u>	<u>1,905,985</u>
Total net assets	<u>\$ 3,488,702</u>	<u>\$ 3,284,064</u>	<u>\$10,745,796</u>	<u>\$10,977,095</u>	<u>\$14,234,498</u>	<u>\$14,261,160</u>

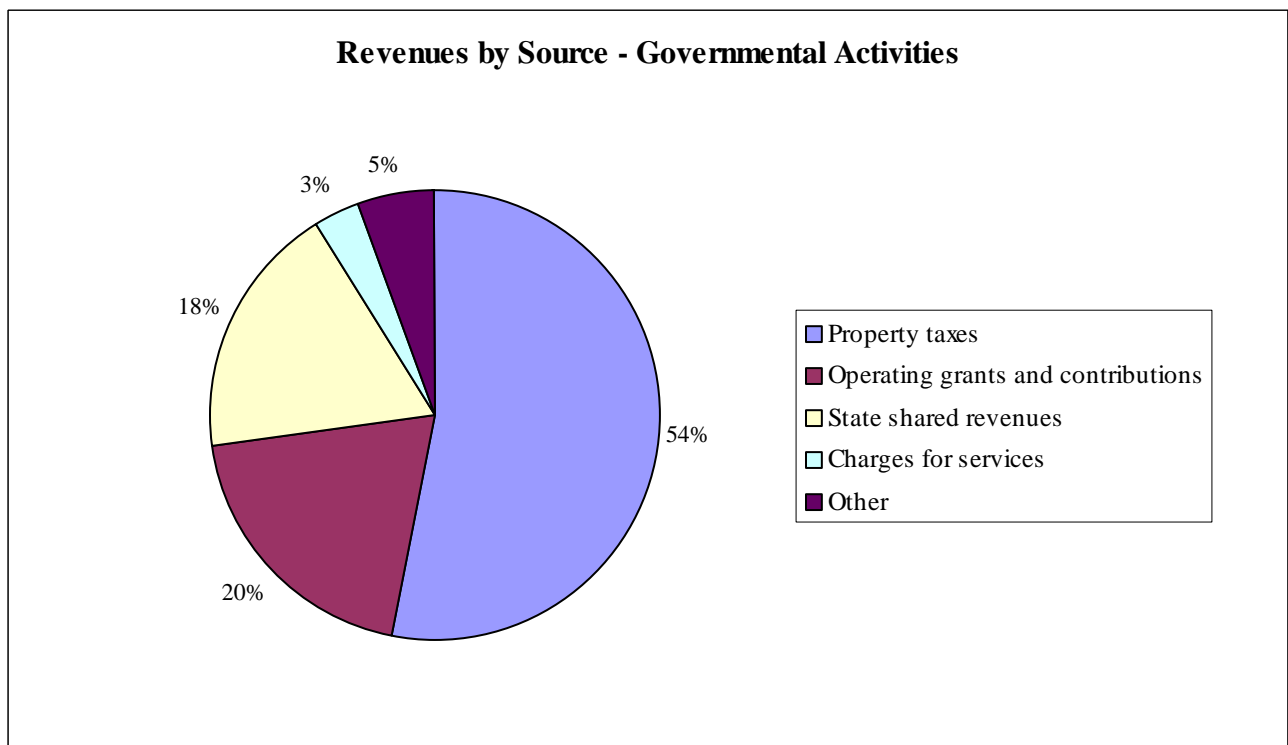
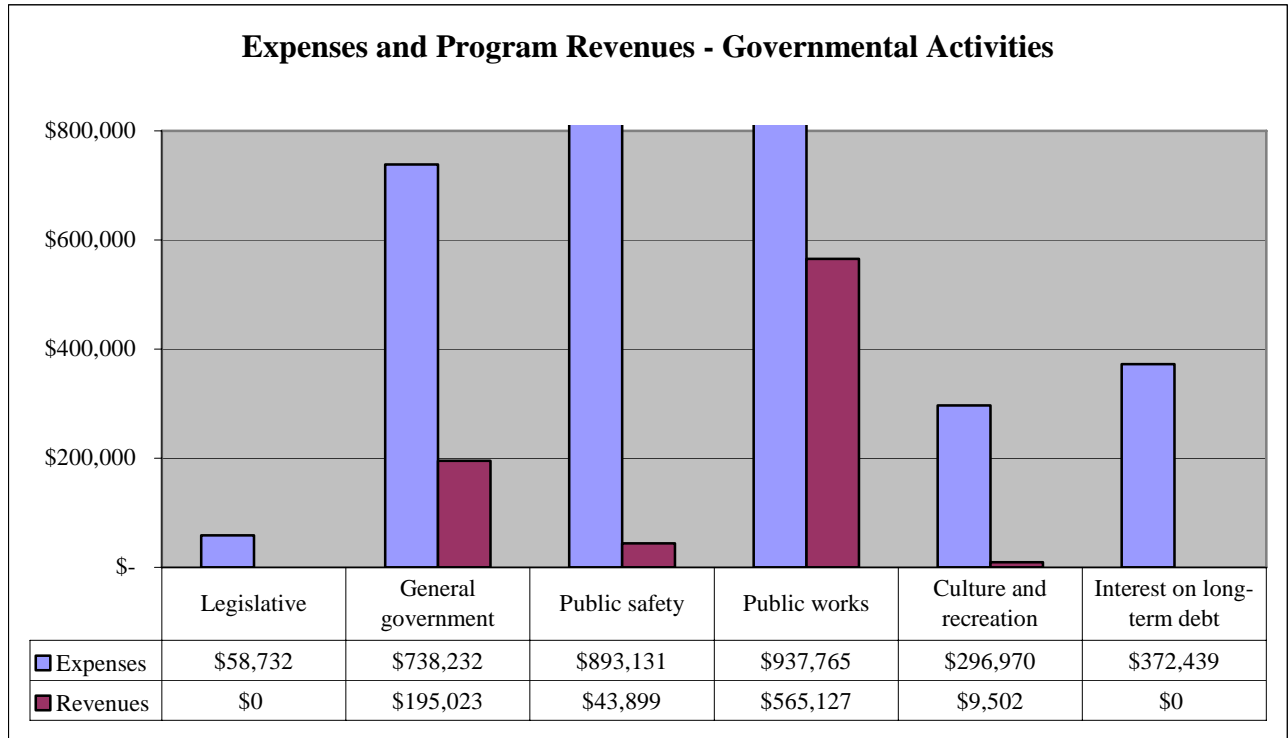
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, for the government as a whole and for its separate governmental and business-type activities.

The City's net assets decreased \$26,662 during the current fiscal year.

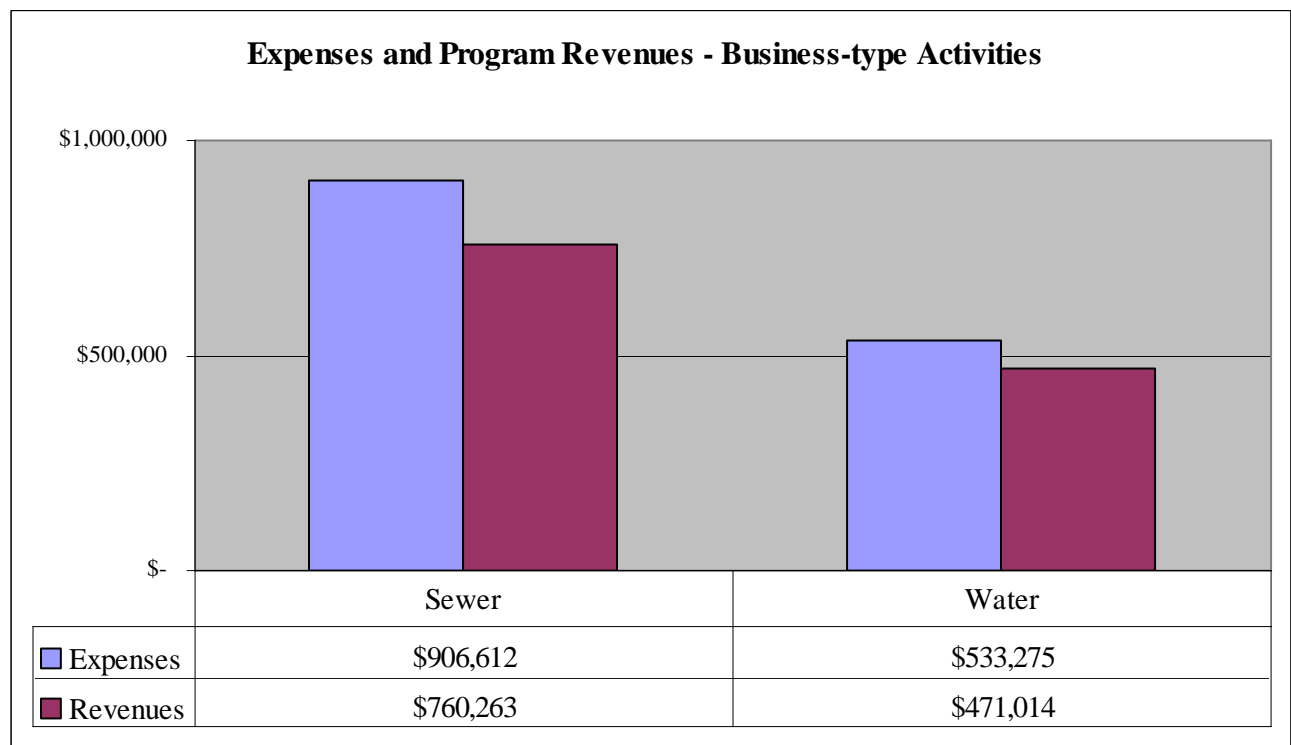
City of Cheboygan
Condensed Statement of Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues						
Charges for services	\$ 118,358	\$ 105,809	\$ 1,186,451	\$ 1,341,183	\$ 1,304,809	\$ 1,446,992
Operating grants and contributions	695,193	618,601	44,826	35,947	740,019	654,548
General revenues						
Property taxes – general operating	1,421,711	1,321,744	-	-	1,421,711	1,321,744
Property taxes – debt	436,411	314,275	-	-	436,411	314,275
State shared revenues	639,001	668,575	-	-	639,001	668,575
Gain of sale of capital assets	-	6,105	-	-	-	6,105
Interest earnings	35,297	27,072	7,486	4,933	42,783	32,005
Local contributions	125,760	131,400	-	-	125,760	131,400
Transfers	30,175	27,625	(30,175)	(27,625)	-	-
Total revenues	<u>3,501,906</u>	<u>3,221,206</u>	<u>1,208,588</u>	<u>1,354,438</u>	<u>4,710,494</u>	<u>4,575,644</u>
Expenses						
Legislative	58,732	46,575	-	-	58,732	46,575
General government	738,232	731,494	-	-	738,232	731,494
Public safety	893,131	884,706	-	-	893,131	884,706
Public works	937,765	962,030	-	-	937,765	962,030
Culture and recreation	296,970	301,293	-	-	296,970	301,293
Sewer	-	-	906,612	851,958	906,612	851,958
Water	-	-	533,275	436,076	533,275	436,076
Interest on long-term debt	372,439	295,193	-	-	372,439	295,193
Total expenses	<u>3,297,269</u>	<u>3,221,291</u>	<u>1,439,887</u>	<u>1,288,034</u>	<u>4,737,156</u>	<u>4,509,325</u>
Change in net assets	204,637	(85)	(231,299)	66,404	(26,662)	66,319
Net assets – beginning of year (as restated – 2004)	<u>3,284,065</u>	<u>3,284,150</u>	<u>10,977,095</u>	<u>10,910,691</u>	<u>14,261,160</u>	<u>14,194,841</u>
Net assets – end of year	<u>\$ 3,488,702</u>	<u>\$ 3,284,065</u>	<u>\$10,745,796</u>	<u>\$10,977,095</u>	<u>\$14,234,498</u>	<u>\$14,261,160</u>

Governmental activities. Governmental activities increased the City's net assets by \$204,637.



Business-type activities. Business-type activities decreased the City's net assets by \$231,299, accounting for substantially all of the decrease in the City's net assets for fiscal year 2005.



Substantially all revenues for the business-type activities resulted from charges for services.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. General Fund fund balance decreased by \$304,329 from \$875,676 to \$571,347 during 2005. This decrease is mainly attributable to the transfer of \$421,000 to a designated capital project fund in anticipation of the City's share of funding to replace the Lincoln Avenue Bridge.

Proprietary funds. The City's *proprietary fund statements* provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The City's budget was amended due to a federal grant that was awarded the City; however, the project was not started prior to the current fiscal year end. That being said, the remaining revenue budget increased due to higher than expected property taxes. The expense budget was amended due to the grant project that was not undertaken during the fiscal year.

Tax revenues exceeded projections due in large part to a delinquent personal property tax collection. Remaining revenues and expenses were realized within projected levels.

Capital Asset and Debt Administration

Capital assets. The City defines a capital asset as an asset whose cost exceeds \$5,000 and whose useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

City of Cheboygan
Capital Assets
(net of depreciation, where applicable)
June 30, 2005

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Land	\$ 205,721	\$ 2,251	\$ 207,972
Construction-in-process	555,340	5,040	560,380
Buildings and improvements	3,048,112	756,205	3,804,317
Land improvements	1,755,398	-	1,755,398
Equipment	791,255	334,555	1,125,810
Infrastructure	1,575,498	-	1,575,498
Water system	-	3,477,937	3,477,937
Sewer system	-	5,201,646	5,201,646
Total	<u>\$ 7,931,324</u>	<u>\$ 9,777,634</u>	<u>\$17,708,958</u>

Additional information on the City's capital assets can be found in Note 3C on pages 26-28 of this report.

Long-term debt. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a Debt Service Fund or Internal Service Fund. Debt is classified as long-term if the debt matures in a period greater than one year.

Additional information on the City's long-term debt can be found in Note 3F on pages 30-34 of this report.

Economic Factors and Next Year's Budgets and Rates

The City continues to experience increases in property values, which increases property tax revenues. However, the increased revenues generated from property tax have been largely offset by decreases in state shared revenue, due to the State of Michigan's current financial difficulties. The City of Cheboygan continues to review methods for delivery of services and continues to seek grants and other funding sources.

The 2005/2006 budget projects continued growth in taxable property values with state shared revenues remaining at the previous year's levels. The budget includes capital expenditures for additional riverfront improvements in the major city park with grant funds providing a major source of revenues. The City of Cheboygan will continue to monitor closely its capital needs, service requirements, and upcoming projects as they relate to budget and projected revenue streams.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer's Office, City of Cheboygan, Michigan, 403 N. Huron St., PO Box 39, Cheboygan, Michigan, 49721.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CHEBOYGAN

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash and cash equivalents	\$ 1,957,574	\$ 837,507	\$ 2,795,081	\$ 225,328
Investments	433,850	-	433,850	-
Accounts receivable	421,550	240,957	662,507	-
Restricted cash	44,640	-	44,640	-
Restricted investments	100,657	-	100,657	-
Capital assets not being depreciated	761,061	7,291	768,352	167,165
Capital assets being depreciated, net	7,170,263	9,770,343	16,940,606	-
Total assets	10,889,595	10,856,098	21,745,693	392,493
Liabilities				
Accounts payable and accrued expenditures	216,199	95,969	312,168	15,140
Customer deposits	-	14,333	14,333	-
Deferred revenue	11,850	-	11,850	-
Noncurrent liabilities				
Due within one year	336,996	-	336,996	-
Due in more than one year	6,835,848	-	6,835,848	-
Total liabilities	7,400,893	110,302	7,511,195	15,140
Net assets				
Invested in capital assets, net of related debt	996,356	9,777,634	10,773,990	167,165
Restricted for				
Debt service	347,123	-	347,123	-
Capital projects	1,244,872	-	1,244,872	-
Perpetual care	145,297	-	145,297	-
Unrestricted	755,054	968,162	1,723,216	210,188
Total net assets	\$ 3,488,702	\$ 10,745,796	\$ 14,234,498	\$ 377,353

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities				
Legislative	\$ 58,732	\$ -	\$ -	\$ (58,732)
General government	738,232	90,355	104,668	(543,209)
Public safety	893,131	15,851	28,048	(849,232)
Public works	937,765	5,600	559,527	(372,638)
Culture and recreation	296,970	6,552	2,950	(287,468)
Interest on long-term debt	372,439	-	-	(372,439)
Total governmental activities	3,297,269	118,358	695,193	(2,483,718)
Business-type activities				
Sewer	906,612	743,768	16,495	(146,349)
Water	533,275	442,683	28,331	(62,261)
Total business-type activities	1,439,887	1,186,451	44,826	(208,610)
Total primary government	\$ 4,737,156	\$ 1,304,809	\$ 740,019	\$ (2,692,328)
Component unit				
Downtown Development Authority	\$ 160,490	\$ -	\$ 650	\$ (159,840)

Continued...

CITY OF CHEBOYGAN
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Changes in net assets				
Net (expense) revenue	\$ (2,483,718)	\$ (208,610)	\$ (2,692,328)	\$ (159,840)
General revenues and transfers				
Property taxes				
General operating	1,421,711	-	1,421,711	173,858
Debt	436,411	-	436,411	-
State shared revenues	639,001	-	639,001	-
Interest earnings	35,297	7,486	42,783	2,166
Local contributions	125,760	-	125,760	-
Transfers	30,175	(30,175)	-	-
Total general revenues and transfers	2,688,355	(22,689)	2,665,666	176,024
Change in net assets	204,637	(231,299)	(26,662)	16,184
Net assets, beginning of year	3,284,065	10,977,095	14,261,160	361,169
Net assets, end of year	\$ 3,488,702	\$ 10,745,796	\$ 14,234,498	\$ 377,353

Concluded

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

CITY OF CHEBOYGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

ASSETS	Special Revenue Funds			Debt Service Funds	
	General	Major Street	Local Streets	2001 Sidewalk Special Assessment Bond	2000 Streetscape Special Assessment Bond
Cash and cash equivalents	\$ 534,727	\$ 3,465	\$ -	\$ 22,563	\$ 17,142
Investments	-	-	-	-	-
Accounts receivable	4,186	-	-	-	-
Due from other governmental units	81,634	58,272	42,881	-	-
Special assessments receivable	66,002	-	-	38,165	130,086
Restricted cash	-	-	-	-	-
Restricted investments	-	-	-	-	-
Total assets	\$ 686,549	\$ 61,737	\$ 42,881	\$ 60,728	\$ 147,228
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 8,558	\$ 786	\$ 41,902	\$ -	\$ -
Accrued expenses	18,551	883	898	-	-
Due to other governmental units	10,241	-	-	-	-
Deferred revenue	77,852	-	-	38,165	130,086
Total liabilities	115,202	1,669	42,800	38,165	130,086
Fund balances					
Reserved					
Termination liability	-	-	-	-	-
Retiree BC/BS	-	-	-	-	-
Perpetual care	-	-	-	-	-
Debt service	-	-	-	22,563	17,142
Capital projects	-	-	-	-	-
Unreserved					
Designated for subsequent year's expenditures	105,100	-	-	-	-
Designated for subsequent year's expenditures reported in special revenue funds	-	-	-	-	-
Undesignated, General Fund	466,247	-	-	-	-
Undesignated, Special Revenue Funds	-	60,068	81	-	-
Total fund balances	571,347	60,068	81	22,563	17,142
Total liabilities and fund balances	\$ 686,549	\$ 61,737	\$ 42,881	\$ 60,728	\$ 147,228

Capital Project Fund		
2004		
General		
Obligation		
Bond	Nonmajor	
Construction	Funds	Total
\$ 837,005	\$ 542,671	\$ 1,957,573
-	433,850	433,850
-	324	4,510
-	-	182,787
-	-	234,253
-	44,640	44,640
-	100,657	100,657
\$ 837,005	\$ 1,122,142	\$ 2,958,270

\$ 29,699	\$ -	\$ 80,945
-	-	20,332
-	-	10,241
-	-	246,103
29,699	-	357,621

-	92,922	92,922
-	249,570	249,570
-	145,297	145,297
-	139,167	178,872
807,306	437,566	1,244,872
-	-	105,100
-	46,000	46,000
-	-	466,247
-	11,620	71,769
807,306	1,122,142	2,600,649
\$ 837,005	\$ 1,122,142	\$ 2,958,270

Continued...

CITY OF CHEBOYGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

**Reconciliation of fund balances on the balance sheet for governmental activities
to the statement of net assets**

Fund balances - total governmental funds **\$ 2,600,649**

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets (net) 7,186,832

Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.

Add - deferred revenue on special assessments receivable 234,253

An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of internal service fund accounted for in governmental activities 497,577

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable (237,876)

Deduct - bonds payable (6,695,000)

Deduct - accrued interest on bonds payable (97,733)

Net assets of governmental activities **\$ 3,488,702**

Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

		<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
				2001	2000
				Sidewalk	Streetscape
				Special	Special
				Assessment	Assessment
				Bond	Bond
	<u>General</u>	<u>Major</u>	<u>Local</u>		
		<u>Street</u>	<u>Street</u>		
Revenues					
Taxes	\$ 1,461,212	\$ -	\$ -	\$ -	\$ -
Special assessments	7,960	-	-	6,463	26,891
Licenses and permits	8,910	-	-	-	-
Federal revenues	26,045	-	-	-	-
State revenues	648,180	392,361	153,660	-	-
Charges for services	31,120	-	5,600	-	-
Interest	14,528	856	-	2,919	10,480
Local contribution	-	-	-	-	-
Miscellaneous	94,590	-	-	-	-
Total revenues	2,292,545	393,217	159,260	9,382	37,371
Expenditures					
Current					
Legislative	58,732	-	-	-	-
General government	489,719	-	-	-	-
Public safety	901,223	-	-	-	-
Public works	267,833	238,228	230,030	-	-
Culture and recreation	276,895	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal retirement	-	-	-	5,000	25,000
Interest and fiscal charges	-	-	-	2,179	7,172
Total expenditures	1,994,402	238,228	230,030	7,179	32,172
Revenues over (under) expenditures	298,143	154,989	(70,770)	2,203	5,199
Other financing sources (uses)					
Transfers in	5,474	-	133,500	-	-
Transfers out	(607,946)	(135,495)	(70,207)	-	-
Total other financing (uses)	(602,472)	(135,495)	63,293	-	-
Net change in fund balances	(304,329)	19,494	(7,477)	2,203	5,199
Fund balances, beginning of year	875,676	40,574	7,558	20,360	11,943
Fund balances, end of year	\$ 571,347	\$ 60,068	\$ 81	\$ 22,563	\$ 17,142

Capital Project Fund			
2004			
General			
Obligation			
Bond	Nonmajor		
Construction	Funds	Total	
\$ -	\$ 436,411	\$ 1,897,623	
-	-	41,314	
-	-	8,910	
-	-	26,045	
-	-	1,194,201	
-	10,200	46,920	
12,371	23,277	64,431	
-	125,760	125,760	
-	13,251	107,841	
12,371	608,899	3,513,045	
-	-	58,732	
-	187,773	677,492	
-	-	901,223	
-	-	736,091	
-	-	276,895	
528,495	7,767	536,262	
-	309,000	339,000	
-	323,412	332,763	
528,495	827,952	3,858,458	
(516,124)	(219,053)	(345,413)	
-	714,573	853,547	
-	(5,474)	(819,122)	
-	709,099	34,425	
(516,124)	490,046	(310,988)	
1,323,430	632,096	2,911,637	
\$ 807,306	\$ 1,122,142	\$ 2,600,649	

Continued...

CITY OF CHEBOYGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of the statement of revenues, expenditures and change in fund balances of governmental funds to the statement of activities

Net change in fund balances - total governmental funds	\$ (310,988)
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Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	600,647
Deduct - depreciation expense	(346,226)

Special assessments receivable are long-term in nature and are collectable over several years. However, only the current receipts are reflected as revenues in the funds.

Deduct - special assessment receipts	(41,314)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	339,000
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An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

Deduct - Change in net assets in internal service fund accounted for in governmental activities	(9,774)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in compensated absences	(2,783)
Deduct - increase in accrued interest	(23,925)

Change in net assets of governmental activities	\$ 204,637
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Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes	\$ 1,376,800	\$ 1,458,020	\$ 1,461,212	\$ 3,192
Special assessments	15,000	10,000	7,960	(2,040)
Licenses and permits	9,000	8,000	8,910	910
Federal revenues	317,900	26,000	26,045	45
State revenues	658,900	649,150	648,180	(970)
Charges for services	31,300	29,800	31,120	1,320
Interest	10,000	16,000	14,528	(1,472)
Miscellaneous	120,000	95,742	94,590	(1,152)
Total revenues	2,538,900	2,292,712	2,292,545	(167)
Expenditures				
Legislative	45,100	58,732	58,732	-
General government	514,500	489,719	489,719	-
Public safety	960,460	901,250	901,223	27
Public works	234,950	267,833	267,833	-
Culture and recreation	666,125	276,975	276,895	80
Total expenditures	2,421,135	1,994,509	1,994,402	107
Revenues over (under) expenditures	117,765	298,203	298,143	(60)
Other financing sources (uses)				
Transfers in	-	5,400	5,474	74
Transfers out	(219,170)	(608,040)	(607,946)	94
Total other financing sources (uses)	(219,170)	(602,640)	(602,472)	168
Net change in fund balance	(101,405)	(304,437)	(304,329)	108
Fund balance, beginning of year	875,676	875,676	875,676	-
Fund balance, end of year	\$ 774,271	\$ 571,239	\$ 571,347	\$ 108

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
State revenues	\$ 386,000	\$ 373,725	\$ 392,361	\$ 18,636
Interest	-	-	856	856
Total revenues	386,000	373,725	393,217	19,492
Expenditures				
Public works	249,670	238,230	238,228	2
Revenues over (under) expenditures	136,330	135,495	154,989	19,494
Other financing sources (uses)				
Transfers out	(138,500)	(135,495)	(135,495)	-
Net change in fund balance	(2,170)	-	19,494	19,494
Fund balance, beginning of year	40,574	40,574	40,574	-
Fund balance, end of year	\$ 38,404	\$ 40,574	\$ 60,068	\$ 19,494

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LOCAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
State revenues	\$ 130,000	\$ 121,360	\$ 153,660	\$ 32,300
Charges for services	5,000	6,000	5,600	(400)
Total revenues	135,000	127,360	159,260	31,900
Expenditures				
Public works	239,020	230,050	230,030	20
Revenues over (under) expenditures	(104,020)	(102,690)	(70,770)	31,920
Other financing sources (uses)				
Transfers in	164,170	172,920	133,500	(39,420)
Transfers out	(80,150)	(70,210)	(70,207)	3
Total other financing sources (uses)	84,020	102,710	63,293	(39,417)
Net change in fund balance	(20,000)	20	(7,477)	(7,497)
Fund balance, beginning of year	7,558	7,558	7,558	-
Fund balance, end of year	\$ (12,442)	\$ 7,578	\$ 81	\$ (7,497)

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

JUNE 30, 2005

	Sewer	Water	Total	Internal Service Fund
Assets				
Current assets				
Cash and cash equivalents	\$ 725,889	\$ 111,618	\$ 837,507	\$ 1
Accounts receivable	164,279	76,678	240,957	-
Total current assets	890,168	188,296	1,078,464	1
Property and equipment, net of accumulated depreciation	6,297,574	3,480,060	9,777,634	744,492
Total assets	7,187,742	3,668,356	10,856,098	744,493
Liabilities				
Current liabilities				
Accounts payable	5,088	7,042	12,130	6,257
Accrued expenses	3,422	1,633	5,055	691
Due to other governmental units	78,784	-	78,784	-
Customer deposits	-	14,333	14,333	-
Current portion of long term debt	-	-	-	96,711
Total current liabilities	87,294	23,008	110,302	103,659
Noncurrent liabilities				
Notes payable	-	-	-	143,257
Total liabilities	87,294	23,008	110,302	246,916
Net assets				
Investment in capital assets - net of related debt	6,297,574	3,480,060	9,777,634	504,524
Unrestricted (deficit)	802,874	165,288	968,162	(6,947)
Total net assets	\$ 7,100,448	\$ 3,645,348	\$ 10,745,796	\$ 497,577

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Sewer	Water	Total	Internal Service Fund
Operating revenues				
Charges for services	\$ 743,768	\$ 442,683	\$ 1,186,451	\$ 406,810
Operating expenditures				
Personal services	306,610	270,555	577,165	68,514
Contracted services	53,945	51,626	105,571	5,092
Insurance	26,519	3,908	30,427	34,999
Equipment rental	34,358	17,396	51,754	340
Supplies	100,769	59,619	160,388	58,149
Utilities	102,024	33,822	135,846	17,334
Repairs and maintenance	-	-	-	58,878
Depreciation	266,575	92,819	359,394	153,277
Miscellaneous	15,812	3,530	19,342	-
Total operating expenses	906,612	533,275	1,439,887	396,583
Operating income (loss)	(162,844)	(90,592)	(253,436)	10,227
Nonoperating revenues (expenses)				
Interest revenue	6,204	1,282	7,486	-
Penalties	15,932	7,878	23,810	-
Miscellaneous revenue	563	20,453	21,016	-
Interest expense	-	-	-	(15,751)
Total nonoperating revenues (expenses)	22,699	29,613	52,312	(15,751)
Income (loss) before transfers	(140,145)	(60,979)	(201,124)	(5,524)
Transfers				
Transfers out	(17,925)	(12,250)	(30,175)	(4,250)
Change in net assets	(158,070)	(73,229)	(231,299)	(9,774)
Net assets, beginning of year	7,258,518	3,718,577	10,977,095	507,351
Net assets, end of year	\$ 7,100,448	\$ 3,645,348	\$ 10,745,796	\$ 497,577

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Cash flows from operating activities				
Cash collected from customers	\$ 710,694	\$ 425,625	\$ 1,136,319	\$ -
Cash collected from other funds	-	-	-	406,810
Cash paid for employee wages and benefits	(304,930)	(270,075)	(575,005)	(68,276)
Cash paid for other operating and administrative expenses	(261,684)	(174,595)	(436,279)	(174,490)
Net cash provided by (used in) operating activities	144,080	(19,045)	125,035	164,044
Cash flows from non-capital financing activities				
Transfers out	(17,925)	(12,250)	(30,175)	(4,250)
Penalties	15,932	7,878	23,810	-
Miscellaneous revenue	563	20,453	21,016	-
Net cash provided by (used in) non-capital financing activities	(1,430)	16,081	14,651	(4,250)
Cash flows from capital and related financing activities				
Interest payments	-	-	-	(15,751)
Principal payments	-	-	-	(112,409)
Purchase of property and equipment	(5,040)	-	(5,040)	(31,633)
Net cash provided by (used in) capital and related financing activities	(5,040)	-	(5,040)	(159,793)
Cash flows from investing activities				
Interest revenue	6,204	1,282	7,486	-
Net increase (decrease) in cash and cash equivalents	143,814	(1,682)	142,132	1
Cash and cash equivalents, beginning of year	582,075	113,300	695,375	-
Cash and cash equivalents, end of year	\$ 725,889	\$ 111,618	\$ 837,507	\$ 1

Continued...

CITY OF CHEBOYGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Cash flows from operating activities				
Operating income (loss)	\$ (162,844)	\$ (90,592)	\$ (253,436)	\$ 10,227
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	266,575	92,819	359,394	153,277
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(33,074)	(17,058)	(50,132)	-
Accounts payable	(7,041)	(4,850)	(11,891)	302
Accrued expenses	1,680	480	2,160	238
Due to other governmental units	78,784	-	78,784	-
Customer deposits	-	156	156	-
Net cash provided by (used in) operating activities	<u>\$ 144,080</u>	<u>\$ (19,045)</u>	<u>\$ 125,035</u>	<u>\$ 164,044</u>

Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS

JUNE 30, 2005

ASSETS	
Cash and cash equivalents	\$ 8,604
Notes receivable	<u>2,810,000</u>
Total assets	<u>\$ 2,818,604</u>
 LIABILITIES	
Due to other governmental units	\$ 8,604
Due to state	<u>2,810,000</u>
Total liabilities	<u>\$ 2,818,604</u>

The accompanying notes are an integral part of these basic financial statements.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Cheboygan* (the “City”) and its component unit. The component unit discussed below is included in the City’s reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit. The Downtown Development Authority (the “DDA”) is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing Board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence operations of the DDA. Separate financial statements of the DDA have not been prepared.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street purposes.

The *2001 Sidewalk Special Assessment Bond Fund* accounts for the 2001 special assessment revenues received and the payments on the bonds issued for sidewalk improvements.

The *2000 Streetscape Special Assessment Bond Fund* accounts for the 2000 special assessment revenues received to repay, and the payments on, the bonds issued for street improvements.

The *2004 General Obligation Bond Construction Fund* accounts for the bond proceeds received and the construction costs of the City's new public safety building.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of the City's sewage disposal and sewer treatment system.

The *Water Fund* accounts for the activities of the City's water distribution and water treatment system.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Internal Service Fund. This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Agency Funds. These funds account for assets held for others in an agency capacity.

Measurement focus, basis of accounting, and financial statement presentation

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

The government-wide financial statements and proprietary type funds of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary type funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the governmental-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The City maintains an investment pool for certain City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents". The debt service and trust and agency funds cash resources are invested separately as required by law.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

The City's cash and cash equivalents includes cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize and the City's investment policy allows the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificate of deposits.

2. *Receivables and payables*

All receivables are reported at their gross value.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. *Property taxes*

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan County.

Property taxes for the DDA are derived by capturing the taxes assessed on the increase in taxable value of the property located within the DDA district.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

At adoption of GASB 34, the City elected to retrospectively report infrastructure back 27 years.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	15-40
Land improvements	10-40
Equipment	3-30
Public domain infrastructure	30
Sewer and water infrastructure	7-75

5. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

7. *Fund balance*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Major Street Special Revenue Funds. All annual appropriations lapse at fiscal year end.

On or before the second Monday in April of each year, the City Manager must present the proposed budget to the City Council for review. The Council holds public hearings and a final budget is prepared and adopted in June of each year. The City Manager may make transfers of appropriations within a function. Transfers of appropriations between functions require the approval of the City Council. The legal level of budgetary control is the function level.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2005:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 2,795,081	\$ 225,328	\$ 3,020,409
Investments	433,850	-	433,850
Restricted cash and cash equivalents	44,640	-	44,640
Restricted investments	<u>100,657</u>	<u>-</u>	<u>100,657</u>
Total Statement of Net Assets	<u>3,374,228</u>	<u>225,328</u>	<u>3,599,556</u>
Statement of Fiduciary Net Assets			
Cash and cash equivalents	<u>8,604</u>	<u>-</u>	<u>8,604</u>
Total	<u>\$ 3,382,832</u>	<u>\$ 225,328</u>	<u>\$ 3,608,160</u>

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial risk. As of year end \$3,373,493 of the City's bank balance of \$3,747,589 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

All of the City's cash and cash equivalents and investments are considered deposits for disclosure purposes.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of June 30, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts receivable	\$ 4,510	\$ 240,957
Due from other governmental units	182,787	-
Special assessment receivable, due within one year	41,678	-
Special assessment receivable, due in greater than one year	<u>192,575</u>	<u>-</u>
Total receivables	<u>\$ 421,550</u>	<u>\$ 240,957</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$246,103.

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2005:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
Governmental activities			
Capital assets not being depreciated			
Land	\$ 200,000	\$ 5,721	\$ 205,721
Construction-in-process	<u>26,845</u>	<u>528,495</u>	<u>555,340</u>
Total capital assets not being depreciated	<u>226,845</u>	<u>534,216</u>	<u>761,061</u>
Capital assets being depreciated			
Buildings	4,281,366	-	4,281,366
Land improvements	3,181,845	-	3,181,845
Equipment	2,986,448	98,064	3,084,512
Infrastructure	<u>2,936,119</u>	<u>-</u>	<u>2,936,119</u>
Total capital assets being depreciated	<u>13,385,778</u>	<u>98,064</u>	<u>13,483,842</u>

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
Less accumulated depreciation for			
Buildings and improvements	\$ (1,128,454)	\$ (104,800)	\$ (1,233,254)
Land improvements	(1,289,797)	(136,650)	(1,426,447)
Equipment	(2,133,071)	(160,186)	(2,293,257)
Infrastructure	<u>(1,262,754)</u>	<u>(97,867)</u>	<u>(1,360,621)</u>
 Total accumulated depreciation	 <u>(5,814,076)</u>	 <u>(499,503)</u>	 <u>(6,313,579)</u>
 Total capital assets being depreciated, net	 <u>7,571,702</u>	 <u>(401,439)</u>	 <u>7,170,263</u>
 Governmental activities capital assets, net	 <u>\$ 7,798,547</u>	 <u>\$ 132,777</u>	 <u>\$ 7,931,324</u>
 Business-type activities			
Capital assets not being depreciated			
Land	\$ 2,251	\$ -	\$ 2,251
Construction-in-process	<u>-</u>	<u>5,040</u>	<u>5,040</u>
 Total capital assets not being depreciated	 <u>2,251</u>	 <u>5,040</u>	 <u>7,291</u>
 Capital assets being depreciated			
Buildings and improvements	2,321,996	-	2,321,996
Sewer system	7,222,200	-	7,222,200
Water system	5,012,371	-	5,012,371
Equipment	<u>2,729,755</u>	<u>-</u>	<u>2,729,755</u>
 Total capital assets being depreciated	 <u>17,286,322</u>	 <u>-</u>	 <u>17,286,322</u>
 Less accumulated depreciation for			
Buildings and improvements	(1,507,740)	(58,051)	(1,565,791)
Sewer system	(1,908,112)	(112,442)	(2,020,554)
Water system	(1,441,615)	(92,819)	(1,534,434)
Equipment	<u>(2,299,118)</u>	<u>(96,082)</u>	<u>(2,395,200)</u>

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
Total accumulated depreciation	\$ (7,156,585)	\$ (359,394)	\$ (7,515,979)
Total capital assets being depreciated, net	<u>10,129,737</u>	<u>(359,394)</u>	<u>9,770,343</u>
Business-type activities capital assets, net	<u>\$ 10,131,988</u>	<u>\$ (354,354)</u>	<u>\$ 9,777,634</u>
<u>Component unit</u>			
Capital assets not being depreciated			
Land	\$ 150,000	\$ -	\$ 150,000
Construction-in-process	<u>-</u>	<u>17,165</u>	<u>17,165</u>
Total capital assets not being depreciated	<u>\$ 150,000</u>	<u>\$ 17,165</u>	<u>\$ 167,165</u>
Depreciation expense was charged to functions/programs of the primary government as follows:			
Governmental activities			
General government		\$ 69,572	
Public safety		2,253	
Public works		202,368	
Culture and recreation		72,033	
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>153,277</u>	
Total depreciation expense – governmental activities		<u>\$ 499,503</u>	
Business-type activities			
Sewer		\$ 266,575	
Water		<u>92,819</u>	
Total depreciation expense – business-type activities		<u>\$ 359,394</u>	

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows as of June 30, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts payable	\$ 87,202	\$ 12,130	\$ 14,728
Accrued expenses	118,756	5,055	412
Due to other governmental units	<u>10,241</u>	<u>78,784</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 216,199</u>	<u>\$ 95,969</u>	<u>\$ 15,140</u>

E. Interfund transfers

Interfund transfers consisted of the following for the year ended June 30, 2005:

	<u>Transfers in</u>		
	<u>Nonmajor</u>		
<u>Transfers out</u>	<u>General Fund</u>	<u>Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	607,946	607,946
Major Street Fund	-	135,495	135,495
Sewer Fund	-	17,925	17,925
Water Fund	-	12,250	12,250
Internal Services Fund	-	4,250	4,250
Nonmajor governmental funds	<u>5,474</u>	<u>70,207</u>	<u>75,681</u>
Total transfers	<u>\$ 5,474</u>	<u>\$ 848,073</u>	<u>\$ 853,547</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
Governmental activities					
Bonds payable					
1997 Water and Sanitary Sewer System Improvement General Obligation Bonds maturing serially to 2022 in annual amounts ranging from \$55,000 to \$285,000 and bearing interest ranging from 5.0% to 7.5%.	\$ 2,795,000	\$ -	\$ (55,000)	\$ 2,740,000	\$ 64,285
1997 Rural Economic Development Bonds maturing serially to 2037 in annual amounts ranging from \$26,000 to \$108,000 and bearing interest at 4.5%.	1,851,000	-	(26,000)	1,825,000	26,000
2004 General Obligation Bonds. Bonds maturing serially to 2023 in annual payments ranging from \$25,000 to \$ 105,000 and bearing interest of 3.25% to 5.15%.	1,350,000	-	(25,000)	1,325,000	35,000
2002 Major and Local Street General Obligation Bonds maturing serially to 2012 in annual amounts ranging from \$30,000 to \$45,000 and bearing interest at 3.95%.	295,000	-	(30,000)	265,000	30,000

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
1997 Michigan Transportation Fund Bonds maturing serially to 2012 in annual amounts ranging from \$20,000 to \$30,000 and bearing interest ranging from 5.1% to 5.8%.	\$ 200,000	\$ -	\$ (20,000)	\$ 180,000	\$ 20,000
2000 Special Assessment Streetscape Bonds maturing serially to 2010 in annual amounts ranging from \$25,000 to \$30,000 and bearing interest ranging from 5.0% to 5.38%.	155,000	-	(25,000)	130,000	25,000
1998 Local Street Paving Bonds maturing serially to 2009 in annual amounts ranging from \$25,000 to \$30,000 and bearing interest ranging from 4.35% to 4.7%.	135,000	-	(25,000)	110,000	25,000
2001 Sidewalk Improvement General Obligation Bonds maturing serially to 2012 in annual amounts ranging from \$8,000 to \$10,000 and bearing interest at 4.15%.	78,000	-	(8,000)	70,000	10,000

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
2001 Sidewalk Improvement Special Assessment Limited Tax General Obligation Bonds maturing serially to 2012 in annual amounts ranging from \$5,000 to \$10,000 and bearing interest at 4.15%.	\$ 55,000	\$ -	\$ (5,000)	\$ 50,000	\$ 5,000
2000 Streetscape Improvement Tax Increment Financing Bonds. Repaid during fiscal 2005.	<u>120,000</u>	<u>-</u>	<u>(120,000)</u>	<u>-</u>	<u>-</u>
Total bonds payable	<u>7,034,000</u>	<u>-</u>	<u>(339,000)</u>	<u>6,695,000</u>	<u>240,285</u>
Notes payable and other					
2000 Act 99 Equipment note payable with annual payments of \$25,628 including interest at 5.48%.	109,095	-	(19,502)	89,593	20,597
2003 Act 99 Equipment note payable with annual payments of \$22,260 including interest at 2.691%.	64,571	-	(21,131)	43,440	21,428
2003 Act 99 Equipment note payable with annual payments of \$22,313 including interest at 6.75%.	40,482	-	(19,580)	20,902	20,902

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
2003 Act 99 Equipment note payable with annual payments of \$16,897 including interest at 5.95%.	\$ 31,001	\$ -	\$ (15,053)	\$ 15,948	\$ 15,948
2004 GMC Top Kick Act 99 note payable with monthly payments of \$18,715 including interest at 3.042%.	85,698	-	(16,136)	69,562	17,313
2001 Act 99 Equipment note payable with monthly payments of \$274 including interest at 9.98%.	3,602	-	(3,079)	523	523
2001 Act 99 Equipment note. Repaid during fiscal 2005.	17,928	-	(17,928)	-	-
Accumulated compensated absences	<u>235,093</u>	<u>2,783</u>	<u>-</u>	<u>237,876</u>	<u>-</u>
Total notes payable and other	<u>587,470</u>	<u>2,783</u>	<u>(112,409)</u>	<u>477,844</u>	<u>96,711</u>
Total long-term debt	<u>\$ 7,621,470</u>	<u>\$ 2,783</u>	<u>\$ (451,409)</u>	<u>\$ 7,172,844</u>	<u>\$ 336,996</u>

Accumulated compensated absences are generally liquidated by the General Fund.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the above obligations except for the liability for accrued compensated absences is as follows:

	Governmental activities	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 336,996	\$ 330,698
2007	318,869	314,992
2008	319,598	300,917
2009	347,505	286,040
2010	297,000	270,534
2011-2015	1,371,000	1,147,841
2016-2020	1,715,000	777,272
2021-2025	1,236,000	324,133
2026-2030	350,000	193,275
2031-2035	436,000	107,145
2036-2037	<u>207,000</u>	<u>14,175</u>
	<u>\$6,934,968</u>	<u>\$4,067,022</u>

Total interest expense for the City for the year was \$372,439.

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Due Within 1 Year</u>
<u>Component unit</u>					
1994 Urban Land loan. Repaid during fiscal 2005.	<u>\$ 13,300</u>	<u>\$ -</u>	<u>\$ (13,300)</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION

A. Defined benefit pension plan

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 9.59% to 14.59% of annual covered payroll. City employees are required to contribute 4.7% of all covered wages. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost of \$143,635 for MERS was equal to the City's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the last actuarial valuation, was 30 years.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 88,119	100%	-
6/30/04	119,970	100	-
6/30/05	143,635	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/99	\$4,718,894	\$5,131,625	\$ 412,731	92%	\$1,171,684	35%
12/31/00	5,070,923	5,587,263	516,340	91	1,104,909	47
12/31/01	5,328,539	6,125,340	796,801	87	1,230,873	65
12/31/02	5,346,218	6,463,306	1,117,088	83	1,341,615	83
12/31/03	5,608,877	6,665,885	1,057,008	84	1,291,949	82
12/31/04	5,847,124	7,473,999	1,626,875	78	1,270,996	128

B. Other post retirement benefits

In addition to the pension benefits described in Note 4A, the City provides post retirement health care benefits, in accordance with City policy, to all employees hired prior to April 27, 1999 who retire from the City on or after attaining age 55 with 25 years of service or retirement at age 62. Currently eight employees meet those eligibility requirements. The City will pay a pre-established monthly amount towards the employees health insurance cost through the age of 65, with a 3% increase each year. Expenditures for post retirement healthcare benefits are recognized as incurred. During the fiscal year ended June 30, 2005, expenditures of \$82,624 were recognized for post retirement healthcare.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

C. Accumulated sick and vacation pay

Employees of the City earn sick and vacation time at varying rates based on the following:

Under the terms of the Police and AFCSME union contract (DPW, sewer and clerical employees), sick leave is accumulated at the rate of one day for each month of service, with a maximum accumulation of 60 days. Employees who have accumulated more than 60 days will not be allowed additional accumulation. Upon retirement or death, employees will be paid out 100% of days accumulated up to a maximum of 60 days.

As a result of separation for any other reason, the employee will lose all accumulated sick leave.

City management personnel earn sick leave at a rate of eight hours per month of service. All unused sick time is paid out, generally in November of each year, at 50% of the employees current rate of pay.

Vacation leave is earned based on the following schedule for all employees:

<u>Years of Service</u>	<u>Vacation Days</u>
1	2 weeks
5	3 weeks
10	4 weeks
20	4 weeks plus 1/2 day for each year beyond 20 years

No more than 50% of an employee's annual vacation leave may be carried over to the next employment year and no accumulation is allowed beyond six weeks of annual leave.

The accumulated sick and vacation pay liability is \$237,876 at June 30, 2005. The City has established a Termination Liability Special Revenue Fund to accumulate amounts necessary to cover this liability as it becomes due. The balance in the Termination Liability Fund at June 30, 2005 is \$92,922.

D. Risk management and litigation

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

CITY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

E. Economic development project

On August 6, 1994, the City borrowed \$3,000,000 from the United States Department of Housing and Urban Development (HUD) under the provisions of Section 108 of the Housing and Community Development Act of 1974, as amended, for the Great Lakes Tissue Company Project. This loan was used to assist the Great Lakes Tissue Company in connection with the purchase of the former Proctor & Gamble Company facility.

On September 17, 1994 Great Lakes Tissue Company signed a note receivable with the City of Cheboygan for \$3,000,000 representing amounts owed to the City from Great Lakes Tissue Company for the economic development project designed to establish additional employment in the City of Cheboygan. The outstanding note receivable balance as of June 30, 2005 is \$2,810,000. Because this receivable is not available for use by the City, a liability has been recorded, in the amount of \$2,810,000, to offset the receivable balance.

During the year end June 30, 2005, the State of Michigan loaned funds to Great Lakes Tissue Company, which were used to repay the loan to HUD. The note payable from the State of Michigan to Great Lakes Tissue Company is due in monthly installments ranging from \$17,000 to \$25,000, beginning January 1, 2005 with interest charged at 7%. The final payment is due January 1, 2025. The note payable is secured by a second priority security interest covering all machinery and equipment and second priority mortgage covering all real property. The note payable is to be repaid with principal and interest payments received from Great Lakes Tissue Company. Future annual principal and interest payments are scheduled as follows: \$204,000 in 2006 through 2009, \$252,000 in 2010 and \$300,000 through 2025. The outstanding balance, to the State of Michigan, at June 30, 2005 is \$2,810,000.

Neither the full faith and credit nor the taxing power of the City is pledged for the payment of the notes. Since the debt payments are being made by Great Lakes Tissue Company, the debt has not been recorded by the City.

SUPPLEMENTARY INFORMATION

CITY OF CHEBOYGAN
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Taxes				
Current property taxes	\$ 1,352,600	\$ 1,433,820	\$ 1,415,930	\$ (17,890)
Payments in lieu of taxes	7,600	7,600	5,781	(1,819)
Interest and penalties on delinquent taxes	16,600	16,600	39,501	22,901
Total taxes	1,376,800	1,458,020	1,461,212	3,192
Special assessments	15,000	10,000	7,960	(2,040)
Licenses and permits	9,000	8,000	8,910	910
Federal revenues				
DEQ grant	317,900	-	-	-
COPS FAST grant	-	26,000	26,045	45
Total federal revenues	317,900	26,000	26,045	45
State revenues				
Sales tax	650,000	640,000	639,001	(999)
Police training	2,000	2,000	2,003	3
Liquor licenses	6,900	7,150	7,176	26
Total state revenues	658,900	649,150	648,180	(970)
Charges for services				
Property tax administration fees	23,000	23,000	24,568	1,568
Parking and dock fees	8,300	6,800	6,552	(248)
Total charges for services	31,300	29,800	31,120	1,320
Interest	10,000	16,000	14,528	(1,472)
Miscellaneous revenue	120,000	95,742	94,590	(1,152)
Transfers in	-	5,400	5,474	74
Total revenues	\$ 2,538,900	\$ 2,298,112	\$ 2,298,019	\$ (93)

CITY OF CHEBOYGAN

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Legislative				
City council	\$ 45,100	\$ 58,732	\$ 58,732	\$ -
General government				
City manager	134,250	140,850	142,380	(1,530)
Clerk - treasurer	181,050	154,250	155,374	(1,124)
Clerk - elections	7,250	14,269	21,158	(6,889)
Assessor	79,100	78,200	68,597	9,603
Board of review	5,000	4,850	4,525	325
City hall and grounds	107,850	97,300	97,685	(385)
Total general government	514,500	489,719	489,719	-
Public safety				
Police department	845,100	788,900	781,611	7,289
Fire department	100,010	99,350	107,281	(7,931)
Parking	15,350	13,000	12,331	669
Total public safety	960,460	901,250	901,223	27
Public works				
Public works	176,950	207,833	208,289	(456)
Street lighting	58,000	60,000	59,544	456
Total public works	234,950	267,833	267,833	-
Culture and recreation				
Recreation department	630,625	237,875	237,684	191
Opera house	21,000	25,000	25,000	-
Soccer field	-	-	120	(120)
Christmas decorations	-	-	-	-
Humane society	6,000	7,000	7,000	-
Promotion	7,500	7,000	7,000	-
Beautification	1,000	100	91	9
Total culture and recreation	666,125	276,975	276,895	80
Total expenditures	2,421,135	1,994,509	1,994,402	107
Other financing uses				
Transfers out	219,170	608,040	607,946	94
Total expenditures and other uses	\$ 2,640,305	\$ 2,602,549	\$ 2,602,348	\$ 201

CITY OF CHEBOYGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds
ASSETS			
Cash and cash equivalents	\$ 399,788	\$ 139,167	\$ 3,716
Investments	-	-	433,850
Accounts receivable	324	-	-
Due from other governmental units	-	-	-
Restricted cash	-	-	-
Restricted investments	-	-	-
Total assets	\$ 400,112	\$ 139,167	\$ 437,566
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Accrued expenses	-	-	-
Total liabilities	-	-	-
Fund balances			
Reserved for			
Retiree BC/BS	249,570	-	-
Termination liability	92,922	-	-
Perpetual care	-	-	-
Debt service	-	139,167	-
Capital projects	-	-	437,566
Unreserved			
Designated for subsequent years' expenditures	46,000	-	-
Undesignated	11,620	-	-
Total fund balances	400,112	139,167	437,566
Total liabilities and fund balances	\$ 400,112	\$ 139,167	\$ 437,566

Permanent Trust Fund	Total
\$ -	\$ 542,671
-	433,850
-	324
-	-
44,640	44,640
100,657	100,657
\$ 145,297	\$ 1,122,142

\$ -	\$ -
-	-
-	-

-	249,570
-	92,922
145,297	145,297
-	139,167
-	437,566
-	46,000
-	11,620
145,297	1,122,142
\$ 145,297	\$ 1,122,142

CITY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds
Revenues			
Taxes	\$ -	\$ 436,411	\$ -
State revenues	-	-	-
Local contribution	-	125,760	-
Charges for services	10,200	-	-
Interest	4,494	2,800	12,717
Miscellaneous	10,301	-	-
Total revenues	24,995	564,971	12,717
Expenditures			
Current			
General government	187,773	-	-
Public works	-	-	-
Capital projects	-	-	7,767
Debt service			
Principal retirement	-	309,000	-
Interest and fiscal charges	-	323,412	-
Total expenditures	187,773	632,412	7,767
Revenues over (under) expenditures	(162,778)	(67,441)	4,950
Other financing sources (uses)			
Transfers in	179,600	113,773	421,200
Transfers out	-	(5,474)	-
Total other financing sources (uses)	179,600	108,299	421,200
Net change in fund balances	16,822	40,858	426,150
Fund balances, beginning of year	383,290	98,309	11,416
Fund balances, end of year	\$ 400,112	\$ 139,167	\$ 437,566

Permanent Trust Fund	Total
\$ -	\$ 436,411
-	-
-	125,760
-	10,200
3,266	23,277
2,950	13,251
6,216	608,899
-	187,773
-	-
-	7,767
-	309,000
-	323,412
-	827,952
6,216	(219,053)
-	714,573
-	(5,474)
-	709,099
6,216	490,046
139,081	632,096
\$ 145,297	\$ 1,122,142

CITY OF CHEBOYGAN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2005

ASSETS	Cemetery	Retiree BC/BS Investment Fund	PA 222 Liability
Cash and cash equivalents	\$ 96	\$ 249,570	\$ 57,200
Accounts receivable	324	-	-
Due from other governmental units	-	-	-
Total assets	\$ 420	\$ 249,570	\$ 57,200
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Accrued expenses	-	-	-
Total liabilities	-	-	-
Fund balances			
Fund balances			
Reserved			
Retiree BC/BS	-	249,570	-
Termination liability	-	-	-
Unreserved			
Designated for subsequent years' expenditures	-	-	46,000
Undesignated	420	-	11,200
Total fund balances	420	249,570	57,200
Total liabilities and fund balances	\$ 420	\$ 249,570	\$ 57,200

Termination Liability	Total
\$ 92,922	\$ 399,788
-	324
-	-
\$ 92,922	\$ 400,112

\$ -	\$ -
-	-
-	-

-	249,570
92,922	92,922
-	46,000
-	11,620
92,922	400,112
\$ 92,922	\$ 400,112

CITY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Cemetery	Retiree BC/BS Investment Fund	PA 222 Liability
Revenues			
State revenues	\$ -	\$ -	\$ -
Charges for services	10,200	-	-
Interest	496	2,139	645
Miscellaneous	200	-	-
Total revenues	10,896	2,139	645
Expenditures			
General government	65,402	82,624	1,976
Public works	-	-	-
Total expenditures	65,402	82,624	1,976
Revenues over (under) expenditures	(54,506)	(80,485)	(1,331)
Other financing sources (uses)			
Transfers in	54,500	117,600	7,500
Transfers out	-	-	-
Total other financing sources (uses)	54,500	117,600	7,500
Net change in fund balances	(6)	37,115	6,169
Fund balances, beginning of year	426	212,455	51,031
Fund balances, end of year	\$ 420	\$ 249,570	\$ 57,200

Termination Liability	Total
\$ -	\$ -
-	10,200
1,214	4,494
10,101	10,301
11,315	24,995
37,771	187,773
-	-
37,771	187,773
(26,456)	(162,778)
-	179,600
-	-
-	179,600
(26,456)	16,822
119,378	383,290
\$ 92,922	\$ 400,112

CITY OF CHEBOYGAN
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS

JUNE 30, 2005

ASSETS	1992 Pavilion Bonds II	1997 Water/Sewer Improvement Bonds	1997 Rural Economic Development Loan	1998 Local Street Paving Bond
Cash and cash equivalents (equal to fund balances)	\$ -	\$ 68,432	\$ 51,297	\$ -

1996 Street Paving Bonds	2001 Sidewalk General Obligation Bond	2000 DDA TIF Bond	2002 Transportation Bond	2004 General Obligation Bond	Total
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,438</u>	<u>\$ 139,167</u>

CITY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR DEBT SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	1992 Pavilion Bonds II	1997 Water/Sewer Improvement Bonds	1997 Rural Economic Development Loan	1998 Local Street Paving Bond	1996 Street Paving Bonds
Revenues					
Taxes	\$ -	\$ 220,545	\$ 120,702	\$ -	\$ -
Local contribution	-	-	-	-	-
Interest	8	1,389	765	-	-
Total revenues	8	221,934	121,467	-	-
Expenditures					
Principal retirement	-	55,000	26,000	25,000	20,000
Interest and fiscal charges	-	148,725	83,160	5,599	10,450
Total expenditures	-	203,725	109,160	30,599	30,450
Revenues over (under) expenditures	8	18,209	12,307	(30,599)	(30,450)
Other financing sources (uses)					
Transfers in	-	-	-	30,599	30,450
Transfers out	(5,474)	-	-	-	-
Total other financing sources (uses)	(5,474)	-	-	30,599	30,450
Net change in fund balances	(5,466)	18,209	12,307	-	-
Fund balances, beginning of year	5,466	50,223	38,990	-	-
Fund balances, end of year	\$ -	\$ 68,432	\$ 51,297	\$ -	\$ -

2001 Sidewalk General Obligation Bond	2000 DDA TIF Bond	2002 Transportation Bond	2004 General Obligation Bond	Total
\$ -	\$ -	\$ -	\$ 95,164	\$ 436,411
-	125,760	-	-	125,760
-	-	-	638	2,800
-	125,760	-	95,802	564,971
8,000	120,000	30,000	25,000	309,000
3,071	5,760	11,653	54,994	323,412
11,071	125,760	41,653	79,994	632,412
(11,071)	-	(41,653)	15,808	(67,441)
11,071	-	41,653	-	113,773
-	-	-	-	(5,474)
11,071	-	41,653	-	108,299
-	-	-	15,808	40,858
-	-	-	3,630	98,309
\$ -	\$ -	\$ -	\$ 19,438	\$ 139,167

CITY OF CHEBOYGAN
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS

JUNE 30, 2005

ASSETS	2001 Sidewalk Improvement Fund	2002 Street Construction Fund	Lincoln Bridge Replacement Fund	Total
Cash and cash equivalents	\$ 955	\$ 2,761	\$ -	\$ 3,716
Investments	-	-	433,850	433,850
Total assets (equal to reserved fund balances)	\$ 955	\$ 2,761	\$ 433,850	\$ 437,566

CITY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR CAPITAL PROJECT FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	2001 Sidewalk Improvement Fund	2002 Street Construction Fund	Lincoln Bridge Replacement Fund	Total
Revenues				
Interest	\$ 31	\$ 36	\$ 12,650	\$ 12,717
Expenditures				
Capital outlay	6,199	1,568	-	7,767
Revenues over (under) expenditures	(6,168)	(1,532)	12,650	4,950
Other financing sources				
Transfers in	-	-	421,200	421,200
Net change in fund balances	(6,168)	(1,532)	433,850	426,150
Fund balances, beginning of year	7,123	4,293	-	11,416
Fund balances, end of year	<u>\$ 955</u>	<u>\$ 2,761</u>	<u>\$ 433,850</u>	<u>\$ 437,566</u>

CITY OF CHEBOYGAN

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES ALL AGENCY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
CURRENT TAX COLLECTION FUND				
ASSETS				
Cash and cash equivalents	\$ 4,186	\$ 2,787,196	\$ (2,782,778)	\$ 8,604
LIABILITIES				
Due to other governmental units	\$ 4,186	\$ 2,787,196	\$ (2,782,778)	\$ 8,604
HUD LOAN				
ASSETS				
Notes receivable	\$ 2,810,000	\$ -	\$ -	\$ 2,810,000
LIABILITIES				
Deferred revenue	\$ 2,810,000	\$ -	\$ -	\$ 2,810,000
TOTAL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 4,186	\$ 2,787,196	\$ (2,782,778)	\$ 8,604
Notes receivable	2,810,000	-	-	2,810,000
Total assets	\$ 2,814,186	\$ 2,787,196	\$ (2,782,778)	\$ 2,818,604
LIABILITIES				
Due to other governmental units	4,186	2,787,196	(2,782,778)	8,604
Deferred revenue	2,810,000	-	-	2,810,000
Total liabilities	\$ 2,814,186	\$ 2,787,196	\$ (2,782,778)	\$ 2,818,604

CITY OF CHEBOYGAN

BALANCE SHEET AND STATEMENT OF NET ASSETS COMPONENT UNIT

JUNE 30, 2005

	Downtown Development Authority	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 225,328	\$ -	\$ 225,328
Capital assets not being depreciated	-	167,165	167,165
Total assets	<u>\$ 225,328</u>	<u>167,165</u>	<u>392,493</u>
Liabilities			
Accounts payable	\$ 14,728	-	14,728
Accrued expenses	412	-	412
Total liabilities	<u>15,140</u>	<u>-</u>	<u>15,140</u>
Fund balance			
Unreserved	210,188	(210,188)	-
Total liabilities and fund balance	<u>\$ 225,328</u>		
Net assets			
Invested in capital assets		167,165	167,165
Unrestricted		210,188	210,188
Total net assets		<u>\$ 377,353</u>	<u>\$ 377,353</u>

CITY OF CHEBOYGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES COMPONENT UNIT

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Downtown Development Authority</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 173,858	\$ -	\$ 173,858
Interest	2,166	-	2,166
Miscellaneous	650	-	650
Total revenues	<u>176,674</u>	<u>-</u>	<u>176,674</u>
Expenditures / expenses			
Public works	177,655	(17,165)	160,490
Debt service			
Principal	13,300	(13,300)	-
Total expenditures / expenses	<u>190,955</u>	<u>(30,465)</u>	<u>160,490</u>
Change in fund balance / net assets	<u>(14,281)</u>	<u>30,465</u>	<u>16,184</u>
Fund balance / net assets, beginning of year	224,469	136,700	361,169
Fund balance / net assets, end of year	<u><u>\$ 210,188</u></u>	<u><u>\$ 167,165</u></u>	<u><u>\$ 377,353</u></u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

August 19, 2005

Honorable Mayor and Members
of the City Council
City of Cheboygan
Cheboygan, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***City of Cheboygan*** (the "City"), as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. The reportable condition is described as follows:

Due to staff size, there is limited segregation of duties over cash receipts/disbursements and the recording of these transactions. The City recognizes this risk, but no change will be implemented because the costs would exceed the benefits.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 19, 2005

Members of the City Council
City of Cheboygan
Cheboygan, MI 49721

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the ***City of Cheboygan*** for the year ended June 30, 2005, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to future financial reporting responsibilities and other matters facing the ***City of Cheboygan***. This letter does not affect our report dated August 19, 2005 on the financial statements of the ***City of Cheboygan***.

We have already discussed these comments with the City Manager and City Clerk-Treasurer, and we would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Best wishes for a successful 2005-2006.

Encl.1

CITY OF CHEBOYGAN

COMMENTS AND RECOMMENDATIONS

JUNE 30, 2005

New Governmental Accounting Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Financial Reporting by Employers for Post-Employment Benefit Plans other than Pension Plans*.

This standard requires the City determine the present value of the projected future cash payments for retirees healthcare benefits. The City will then be required to make annual contributions to fund these costs, similar to the process that the City is currently following for its Municipal Employees Retirement System Plan.

The GASB Statement No. 45 allows governmental units with less than 100 participants to choose to contract with an actuary or prepare their own estimates using a simplified alternative measurement method. This alternative method includes the same broad measurement steps that an actuary would use; however, it permits simplification of certain assumptions to make the method usable by non-specialists.

Although the City is not required to adopt this standard until the fiscal year ending June 30, 2010, early implementation is encouraged. The City should begin to plan for this implementation by determining whether they should contract with an actuary or if City management will be performing the required calculations. Further the City will need to determine whether they will hold these annual contributions in a fund of the city or if they will establish a trust fund which would be administered by a third party.

We would be happy to provide additional information necessary to assist the City in implementing GASB Statement No. 45.

Liability for Accrued Sick and Vacation

As of June 30, 2005, the City's liability for accrued sick and vacation is approximately \$238,000. The City has approximately \$93,000 reserved for related benefits available to employees upon retirement. The City should continue to monitor the cash flow requirements to retire this liability based on the expected retirement date and expected individual payout amounts related to each employee of the City. This will ensure that the City has the appropriate cash flow when its employees retire and will also provide the necessary information for the City to budget the required annual General Fund transfer.

Michigan Finance Qualifying Statement

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Department of Treasury's website. The Qualifying Statement is due to the Michigan Department of Treasury no later than December 31, 2005.

Electronically Filing the Financial Statements

The Michigan Department of Treasury (the “Treasury”) has issued Numbered Letter 2004-5 which requests (under the authority of Michigan Compiled Law 141.427(1)) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (PDF) compatible with Adobe Acrobat. Although this filing process is not mandated at this time, the Treasury is strongly recommending that all governmental units file their year end audit reports including the Auditing Procedures Report (496) and management comment and recommendation letter electronically. We have provided the necessary information, in this electronic format, to the City Treasurer-Clerk to enable the City to comply.

Conclusion

As always, it has been a pleasure to provide audit services to the *City of Cheboygan*. The City’s accounting personnel are very conscientious and most helpful. The accounting records were in good order and all audit information requests were satisfied promptly.

We appreciate your business! Thank you.